CA7 AEC
A56
1988 c.v

AEC

ALBERTA ENERGY COMPANY LTD.

1988 ANNUAL REPORT

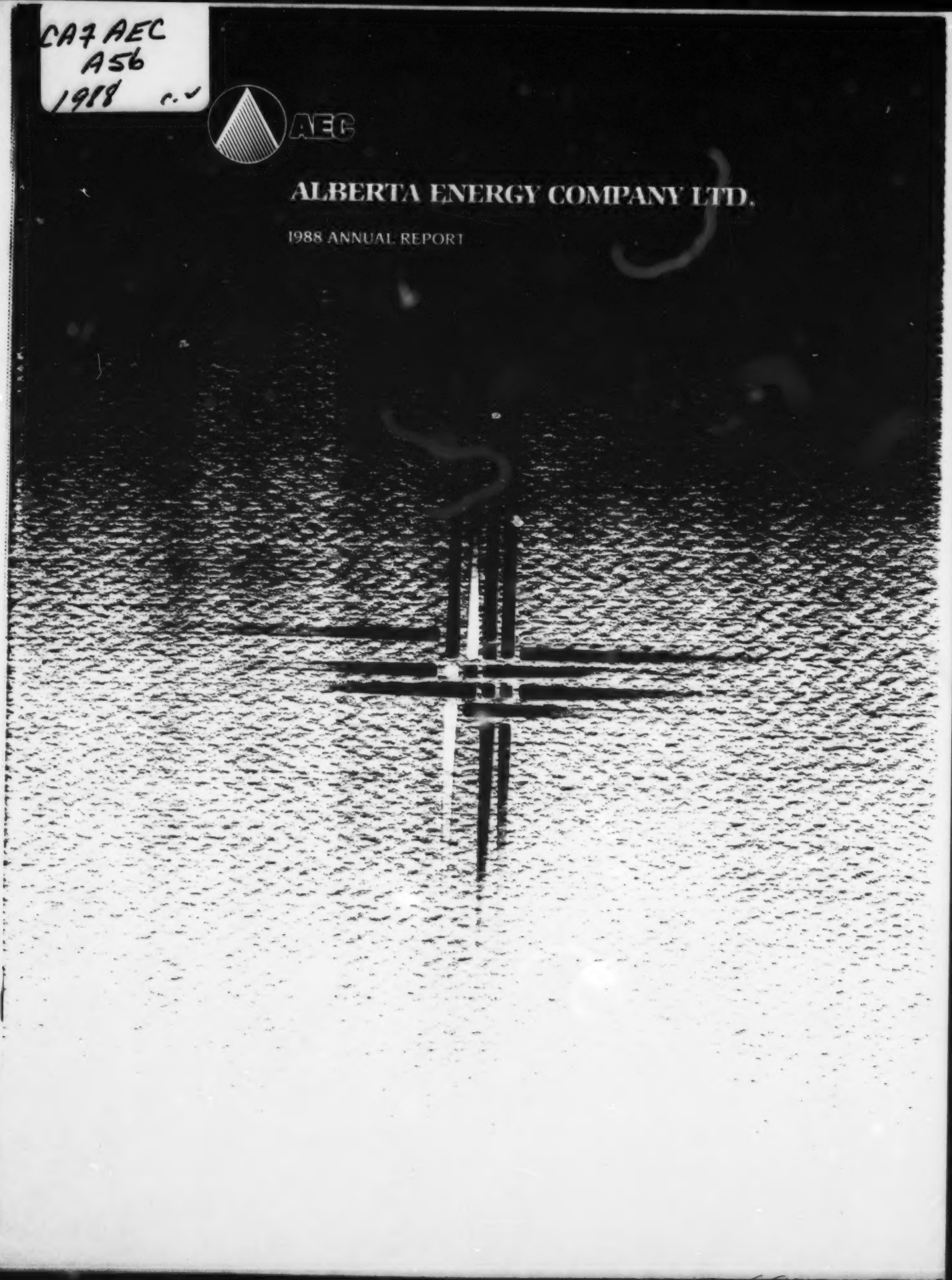


TABLE OF CONTENTS

1988 AT A GLANCE 1

PRESIDENT'S REMARKS TO SHAREHOLDERS 2

AEC OIL AND GAS COMPANY 4
- Exploration 7
- Natural Gas Production 9
- Conventional Oil Production 10
- Enhanced Heavy Oil Recovery 10
- In Situ Heavy Oil Sands 10
- Syncrude 11
- Marketing 12

CHIEFTAIN INTERNATIONAL, INC. 13

PAN-ALBERTA COMPANIES 13

AEC PIPELINES 14

AEC FOREST PRODUCTS 16

AEC PETROCHEMICALS 18

OTHER INVESTMENTS 20

AEC'S COMMUNITY 21

1988 FINANCIAL REVIEW 22

AUDITORS' REPORT 24

CONSOLIDATED FINANCIAL STATEMENTS 25

HISTORICAL REVIEW 38

DIRECTORS AND OFFICERS 40

CORPORATE INFORMATION ..... INSIDE BACK COVER

OUR COMPANY

Alberta Energy Company Ltd. is a natural resource development corporation with 45,000 shareholders. AEC participates in Canada's oil and natural gas, pipeline, petrochemicals, forest products and coal industries.

1988 AT A GLANCE

The year 1988 was one of major initiatives to enhance the Corporation's foundation for long-term growth. It was a year in which AEC's diversified cash flow and record sales levels helped to temper the impact of substantially lower world oil prices.

OPERATING HIGHLIGHTS

Record natural gas sales increased 20 percent to 280 million cubic feet per day.

Record conventional oil and NGL sales increased 29 percent to 6,500 barrels per day.

Record synthetic oil sales increased 10 percent to 15,000 barrels per day.

Record pipeline throughput totalled 322,000 barrels per day.

Coal sales were up 9 percent to 544,000 tons.

A 104-well exploration program resulted in 48 gas discoveries, 13 oil discoveries and 11 wells cased for further evaluation.

Canada's largest producer-owned natural gas storage facility was placed into operation.

Syncrude's Capacity Addition Project added 2,000 barrels per day to AEC's synthetic oil production capacity and 97 million barrels to synthetic oil reserves.

Approval in principle was received from the Alberta government to proceed with a 110,000 tonne per year aspen-based bleached chemi-thermo-mechanical pulp mill.

FINANCIAL HIGHLIGHTS

Cash flow was $196.2 million, a 5.2 percent decrease.

Earnings, before an extraordinary gain, were $36.1 million, a 40 percent decrease; earnings, after an extraordinary gain, were $51.4 million.

Revenues, net of royalties, were $477.2 million, a 2.8 percent increase.

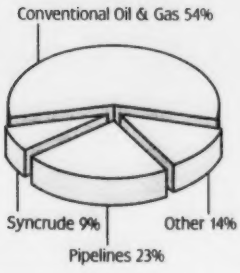
Capital investment totalled $163.5 million.

At year-end, long-term debt was $597.8 million; debt/equity ratio 46:54, and average interest cost slightly under 9 percent.

$80 million was raised from a Common Share issue.

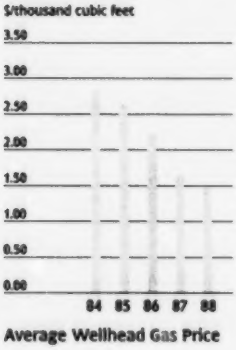
The acquisition of Chieftain Development Co. Ltd. was completed.

$25.7 million was received from the sale of IPSCO Inc. shares, a $15.3 million profit.



Sources of Cash Flow by Segment

Average Wellhead Oil Price



Average Wellhead Gas Price

The year 1988 was one of major initiatives to further strengthen AEC's asset foundation for long-term growth. It was a year in which our diversified cash flow and record sales levels helped to temper the impact of substantially lower world oil prices.

Record natural gas and oil production rates only partially offset the reduced profit margins that resulted from lower gas and oil prices. As 1989 begins, however, natural gas markets are improving, crude oil prices are higher, and the outlook is much more encouraging than the experience of the past year.

Operational results were excellent. In addition to record gas and conventional oil production, Syncrude performed very well, with record output and reduction of cash operating costs to less than $15 per barrel. Pipelines transported a record 322,000 barrels per day and operated for the second successive year without a lost time accident. Forest products plants further increased medium density fibreboard production and achieved slightly higher lumber volumes. Fertilizer plants continued to produce at full capacity, and the market for fertilizer showed considerable strengthening near year-end. Coal production was again cost effective and profitable.

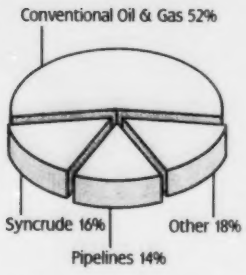
In 1988 the Corporation's cash flow was comprised approximately 54 percent from natural gas and conventional oil; 9 percent from Syncrude; 23 percent from Pipelines and 14 percent from Forest Products and other investments. The relative size of these contributions will change as projects mature and selling prices increase. The fertilizer investment, for example, was only in its first year of full operation, and revenue from that source will grow.

Profits are extremely price sensitive, particularly for a commodity like synthetic oil, which had only a $2.88 per barrel margin between its cash operating cost and an average plant gate sales price of $17.70 in 1988. AEC's cash flow from its 15,000 barrels per day of net production at Syncrude is markedly affected by price. OPEC has demonstrated, in recent months, a better ability to regulate its production, and if it maintains agreement, strengthening world crude prices add upside profit potential for the Corporation.

During 1988, AEC made several attempts to purchase natural gas reserves because the value of this fuel is expected to grow appreciably in the years ahead. The purchase of the remaining 43 percent of Chieftain shares was the largest such investment. In addition to its other assets, Chieftain had proven gas reserves of approximately 500 billion cubic feet and 0.6 million net acres of exploration land in western Canada. This acquisition also provided AEC with direct access to Chieftain's cash flow and other financial benefits. Subsequent to AEC's acquisition in 1988, former Chieftain properties have become even more valuable due to 25 percent participation in a significant natural gas discovery at the Matagorda field, offshore Texas, in the Gulf of Mexico.

The financial challenge of the past year was to raise capital for investments in natural gas and other endeavours during a time of declining crude oil profit margins. A successful $80 million Common Share issue, one of relatively few equity issues in Canada during the year, met part of this need. The Corporation also sold its interest in IPSCO Inc. for $25.7 million, a $15.3 million profit.

TO SHAREHOLDERS



Total Assets by Segment

At year-end AEC's debt to equity ratio was a favourable 46:54. This corporate debt includes our $277 million investment in rate-of-return pipelines, which normally support a much higher rate of debt. AEC's mandatory debt payments for the next 5 years total only $16 million and the average interest rate on debt is slightly under 9 percent.

AEC is the operator of extensive oil and gas properties, pipelines and forest products facilities. As well, it has non-operating investments in other profitable ventures, including Syncrude, Cominco's North American nitrogen fertilizer business (the product is sold under the "Elephant Brand" in Canada), Luscar's Coal Valley mine and Pan-Alberta Gas. The majority of AEC's present investments are either wholly owned or structured in a manner that provides the Corporation with its proportionate share of cash flow and ensures a maximization of tax credits.

The table on page 38 shows the natural resource assets owned by the Corporation. It is an imposing list, demonstrating long-term supplies of commodities now being produced. As well, the upside potential is excellent when world crude prices are of sufficient strength and reliability to warrant development of AEC's huge heavy oil resources. In the nearer term, the outlook for strengthening gas sales and prices is encouraging.

AEC Forest Products is proceeding with plans to construct an aspen-based bleached chemi-thermo-mechanical pulp mill near Slave Lake, in northern Alberta. This plant will cost $168 million, including interest during construction and working capital. The Alberta government is providing a project loan guarantee of $96 million and certain of the infrastructure, similar to its encouragement of other forest products facilities in the province. MoDoCell, of Sweden, a world leader in the pulp and paper business, is providing marketing arrangements and technical expertise, with special attention being given to effluent treatment. This plant will be one of the most environmentally safe pulp operations in North America. The product has been extensively tested in North America and Europe and is of high quality.

As the Corporation's fifteenth year of active operations begins, we look back on a year of shrinking profit margins but ahead to better times. In addition to the activities outlined above, we are progressing with plans to add to the size of our profitable gas and oil exploration program; and the non-Canadian oil and gas assets of AEC are being placed into a new corporation, Chieftain International. It is anticipated that, in 1989, approximately one-half of Chieftain International's shares will be sold to the public, with the balance being retained by AEC.

The resignation of Honourable Donald S. Macdonald as a Director, made necessary by his appointment as Canadian High Commissioner to the United Kingdom, was accepted with great regret. He was a valued contributor on the Board of Directors.

The contribution of our employees continues to be excellent, and the Corporation's progress is directly related to their enthusiastic participation and dedication.

David E. Mitchell, O.C.
President and
Chief Executive Officer

February 17, 1989

AEC OIL AND GAS COMPANY

L ▶ R:
Gwyn Morgan,
President

Allan F. Kiernan,
Vice-President

Wayne G. Thomson,
Vice-President, Production

Roger D. Dunn,
Senior Vice-President

Dennis C. Cornelson,
Vice-President, Marketing

Ronald A. McIntosh,
Senior Vice-President

R. William Oliver,
Vice-President

Substantial increases in natural gas sales more than offset a modest price decline, resulting in improved financial contributions from natural gas. However, increases in conventional and synthetic oil sales could not offset sharp declines in oil prices. The exploration program continued to discover reserves at profitable finding costs, and the completion of a major natural gas storage project strengthened AEC's ability to maximize profits from natural gas sales.

The integration of the Canadian assets and staff of Chieftain Development with AEC Oil and Gas Company was a major accomplishment in 1988. The benefits to AEC include:

- Substantial expansion of natural gas and oil reserves under AEC's direct control.
- Integration of two strong exploration teams with a combined undeveloped land base of over 1.3 million net acres.
- Further strengthening of AEC's oil and gas production capability.
- Profitable utilization of natural gas marketing synergies.

The commentary and statistics in this section reflect that integration. For comparative purposes, prior years' statistics include the Canadian operations of Chieftain Development. AEC's United States oil and gas interests are held by Chieftain International.

AEC Oil and Gas Company now ranks among the top ten oil and gas companies in Canada in terms of reserves, production levels and exploratory landholdings in the Western Canadian Sedimentary Basin, and is fourth largest of the Canadian controlled companies. With the current strength of North American natural gas markets and the outlook for increasing stability of oil prices, AEC is in an excellent position to build upon this foundation.

CANADIAN RESERVES

Oil and gas reserves at year-end 1988, as estimated by independent engineering consultants, are as follows:

Natural Gas (billion cubic feet)	
Proven	1,539
Probable	201
Total	1,740

Conventional Oil and Natural Gas Liquids (million barrels)	
Proven	15.5
Probable	5.2
Total	20.7

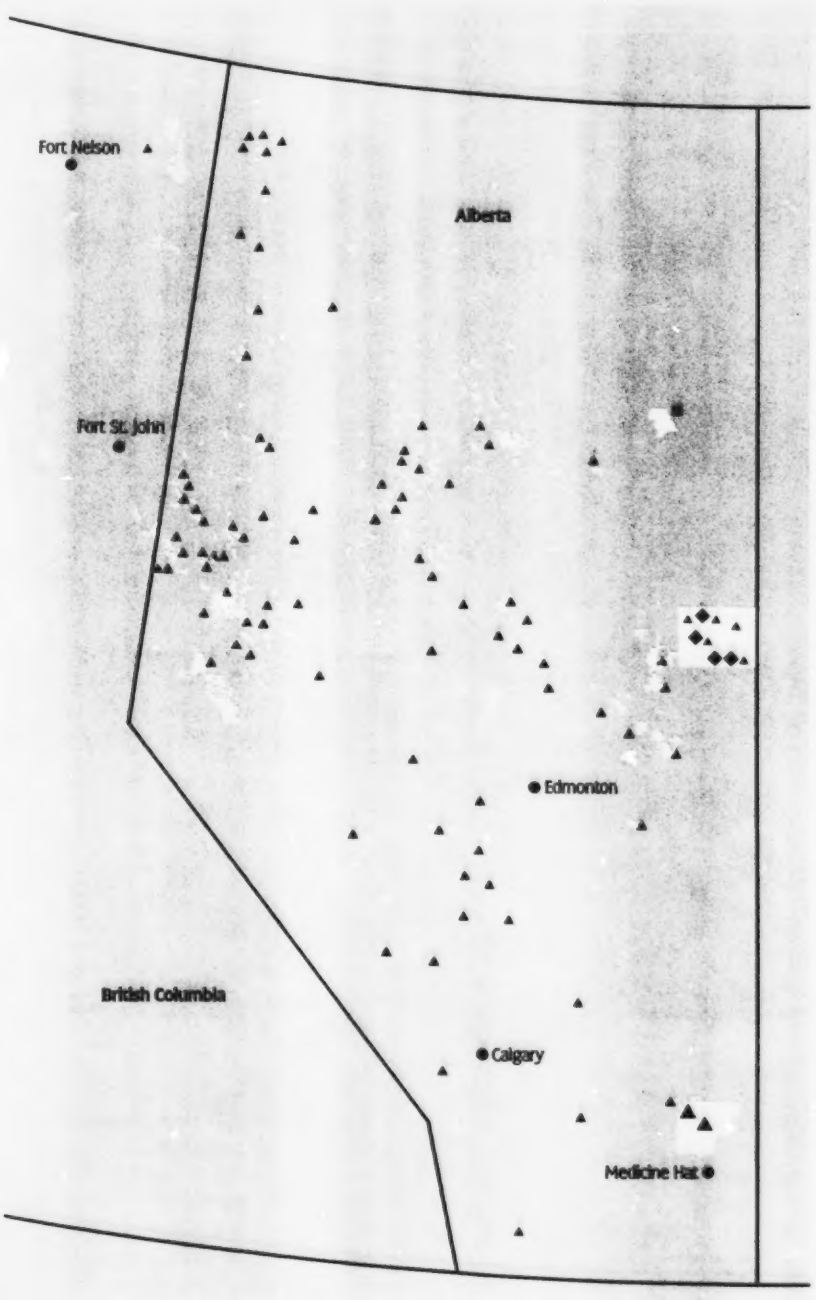
Synthetic Oil (million barrels)	
Proven developed	212

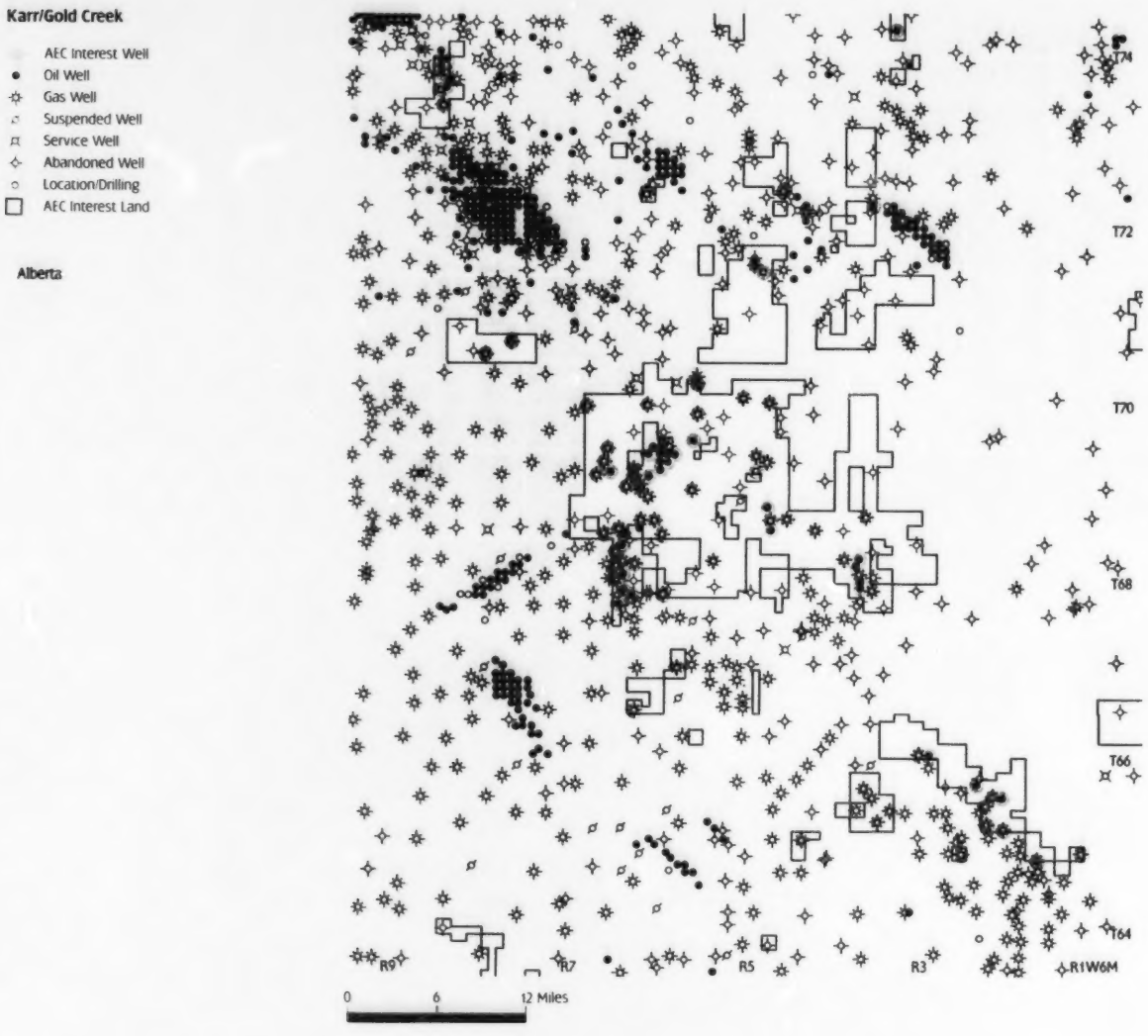
In Situ Heavy Oil

AEC holds an estimated 25 billion barrels of heavy oil in place, primarily on the Primrose Range in northern Alberta, after deducting the portion that joint venture participants have earned or are entitled to earn. The Company's share is estimated to have the potential to ultimately produce over 50,000 barrels per day, of which approximately 5,000 barrels per day could be realized within 5 years dependent on favourable oil prices, markets, and fiscal terms.

Western Canadian Oil and Gas Landholdings

- AEC Interest Land
- Natural Gas
- Conventional Oil
- Heavy Oil
- Syncrude





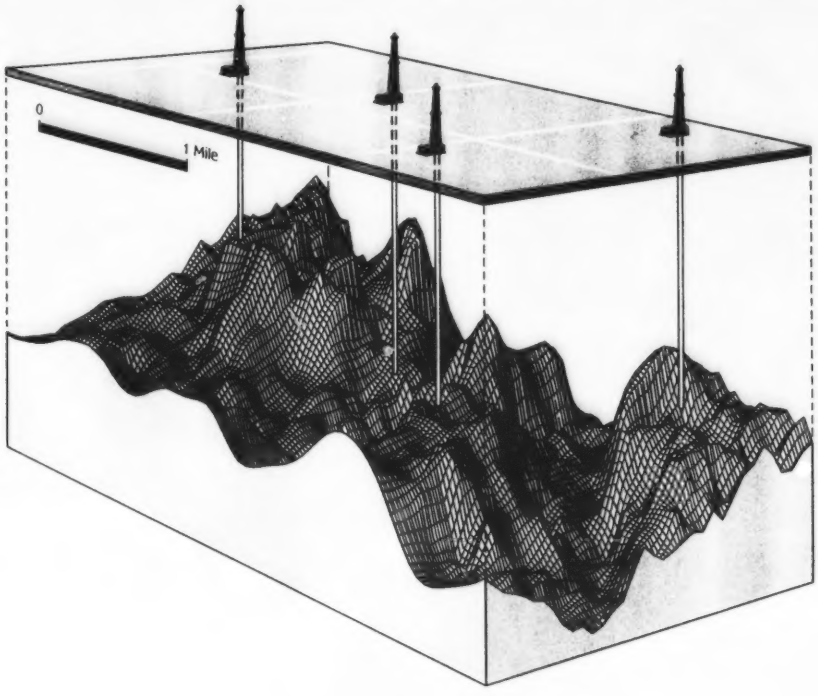
EXPLORATION

Oil and gas exploration efforts continue to focus primarily on the Alberta portion of the Western Canadian Sedimentary Basin. About two-thirds of AEC's exploration activity is centred on natural gas plays. The Company strives to retain high working interests by initiating exploration prospects and acquiring significant land blocks. Following the dramatic oil pricing downturn in late 1985, the Company substantially modified its exploration strategy focusing on specific exploration regions having the right combination of geological and profit potential.

This revised western Canadian strategy has resulted in a 1986 through 1988 three-year weighted average finding cost of $4.84 per barrel of oil equivalent (BOE) (converting 10,000 cubic feet of natural gas to 1 barrel of oil equivalent or a 10:1 conversion). Industry three-year average finding costs have been estimated, by CERI Energy Research Ltd., a subsidiary of the Canadian Energy Research Institute, to be $6.10 per BOE for the 1985 to 1987 period, utilizing the same 10:1 conversion. Comparable industry estimates are not yet available for 1988. A considerable portion of North American industry utilizes the actual energy equivalent conversion of 6:1. On this basis, AEC's 1986 through 1988 weighted average finding cost is $3.11 per BOE.

Peace River Arch Subsurface 3-D Computer Display

This illustrated prospect display results from three-dimensional seismic evaluation and the application of other AEC technology.

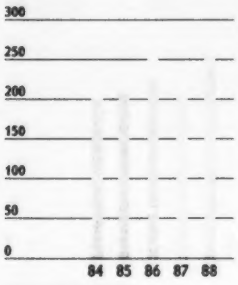


Integration of the Canadian holdings of Chieftain Development almost doubled undeveloped western Canadian landholdings to more than 3 million gross acres and 1.3 million net acres. Two active and successful exploration teams are now working together in pursuit of opportunities on the Company's expanded land base.

On the Primrose Range, exploration drilling in the 50 percent owned Caribou Lake area resulted in 15 gas discoveries out of 17 tests. Exploration in the 100 percent owned Foster Creek area resulted in 8 wells, all of which were successful, with gas established in three different geological zones and test rates averaging 1.3 million cubic feet per day. Primrose gas reserves have increased to 174 billion cubic feet net to AEC.

Exploration in the multi-zone Karr/Gold Creek area has resulted in the drilling of 9 exploratory wells and 8 development wells, with after-payout working interests averaging 36 percent. Production has been established in twelve different geological zones within the area, and wells drilled during 1988 recovered natural gas and condensate on test from several zones at rates averaging 4.1 million cubic feet per day and 160 barrels per day, respectively. The 1988 program is estimated to have added net reserves of 20 billion cubic feet of gas and 1.4 million barrels of crude oil and natural gas liquids.

The Company uses interactive geophysical computer workstations and other state-of-the-art technology in exploration prospect generation and definition. The Peace River Arch prospect display illustrated is the result of three-dimensional seismic evaluation and other applications of AEC technology. One or more wells will be drilled on this prospect in 1989.



Natural Gas Sales
(Million cubic feet per day)
☐ AEC Oil and Gas Company
☐ Chieftain Development

AEC natural gas sales in 1988 reflect the addition of Chieftain Development's Canadian sales from September 1, the date both operations were integrated.

EXPLORATORY WELL STATISTICS

	1988 Total		1987 Total	1986 Total
	Gross	**Net**	Net	Net
Oil	**13**	**2**	5	8
Gas	**48**	**23**	14	13
Cased Awaiting Evaluation	**11**	**6**	5	4
Dry and Abandoned	**32**	**10**	10	29
Total	**104**	**41**	34	54

Note: For comparative purposes, statistics include Canadian wells of Chieftain Development prior to the integration of September 1, 1988.

DEVELOPMENT WELL STATISTICS

	1988 Total		1987 Total	1986 Total
	Gross	**Net**	Net	Net
Oil	**27**	**12**	5	19
Gas	**57**	**46**	5	53
Cased Awaiting Evaluation	**4**	**2**	8	1
Dry and Abandoned	**9**	**3**	3	5
Total	**97**	**63**	21	78

Note: For comparative purposes, statistics include Canadian wells of Chieftain Development prior to the integration of September 1, 1988.

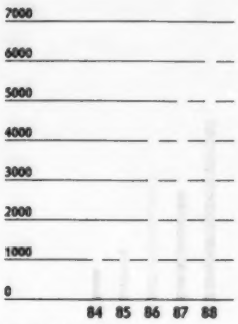
NATURAL GAS PRODUCTION

AEC holds interests in 3,251 producing natural gas wells most of which are in Alberta. Natural gas sales of 280 million cubic feet per day were up 20 percent from the 233 million cubic feet per day in 1987 due to strong demand under the Company's increasingly diversified portfolio of natural gas sales arrangements.

The differential between summer and winter natural gas prices is increasing as the combined impact of deregulation and tightening of North American supply/demand continues. In a major strategic response to this trend, AEC constructed and now operates Canada's largest producer-owned natural gas storage facility. This facility is designed to achieve peak withdrawals of about 100 million cubic feet per day, raising AEC's peak winter production capacity to over 400 million cubic feet per day. In addition to achieving record 1988 gas sales, AEC was able to store gas in the new facility to prepare for stronger gas markets and prices during the 1989 winter heating season.

AEC is one of the lowest cost producers in the natural gas industry with an average 1988 cash operating cost of 22 cents per thousand cubic feet. This low production cost was especially beneficial in view of the weak gas prices encountered during 1988.

AEC continues to develop additional natural gas reserves to offset normal productivity declines, to satisfy new long-term contract commitments, and to prepare for strengthening North American gas demand and prices.



Oil and NGL Sales
(Barrels per day)
☐ AEC Oil and Gas Company
☐ Chieftain Development

AEC oil and NGL sales in 1988 reflect the addition of Chieftain Development's Canadian sales from September 1, the date both operations were integrated.

CONVENTIONAL OIL PRODUCTION

Record average conventional oil and NGL sales of 6,500 barrels per day represent a 29 percent increase over the 5,020 barrels per day in 1987. Development of newly discovered oil properties will maintain oil production levels in 1989. AEC is a low-cost producer of conventional oil with average cash operating costs of $3.35 per barrel, an important element in weathering weak 1988 oil prices.

ENHANCED HEAVY OIL RECOVERY

Suffield oil reservoirs hold approximately 250 million barrels of 14 degree API gravity conventional heavy oil in place, of which only 6 million barrels of remaining reserve is judged recoverable by conventional drilling and production methods. Several new methods are being investigated which show considerable promise for substantially enhancing reserve recovery.

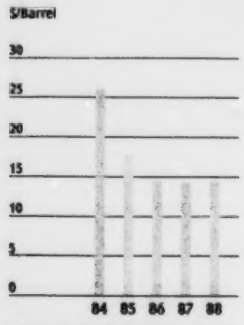
One technology being applied is horizontal drilling in which a well drilled vertically towards the producing zone deviates horizontally through the formation. This technique greatly increases contact with the producing zone and the volume of reservoir drained. The Company's first horizontal well, drilled in late 1987, penetrated 820 feet of the producing formation, compared with 50 feet for a conventional vertical well at the same location. The well produced at a controlled rate of 100 barrels per day.

A second horizontal well, using an even more ambitious application of this technology, penetrated 2,150 feet of producing formation, 45 times the penetration of a vertical well. The new well, placed on production at a cost of only 2.5 times that of a conventional vertical well, is expected to produce much longer, at higher rates, and with substantially improved profitability. AEC has been a leader in the Canadian use of this form of horizontal well technology in order to improve recovery levels and profitability.

The Company also continued with tests of a proprietary AEC-developed technique of periodic gas and chemical injection at producing wells to increase oil recovery and reduce the proportion of water produced. A majority of the tests demonstrated profitability and recovery improvements. Continued testing during 1989 is expected to prove commercial application of this technique.

IN SITU HEAVY OIL SANDS

AEC has enormous heavy oil resources on the 2,000-square-mile Primrose Range located near Cold Lake in northern Alberta. To date approximately 50 billion barrels have been delineated of which AEC has the right to about 50 percent or 25 billion barrels. It is conservatively estimated that approximately 500 million barrels may ultimately be produced from AEC's holdings depending on oil prices, markets and fiscal terms. Large scale development of this resource requires sufficiently strong market demand and prices to justify the capital investment. Although oil price weakness has caused project deferments, continued technical improvements and operating efficiencies have reduced operating costs to the point where relatively small oil price increases could reactivate commercial development.



Syncrude Cash Operating Costs

During 1988, field work commenced in the Burnt Lake region on a 12,500 barrel-per-day commercial project in which AEC has a 12.5 percent working interest plus an additional interest in net profits. Late in the year the operator proposed that project construction be slowed in response to lower oil prices. The project schedule is to be reviewed in April 1989.

Regulatory approvals have been awarded for a three-stage, 25,000 barrel-per-day commercial project in the south-central part of AEC's Primrose acreage. Drilling and construction are being delayed by the operator pending an improvement in oil prices. AEC has the right to retain a 25 percent working interest or a net profits interest or a combination of both in the project.

In the Caribou Lake region of Primrose, where AEC retains a working interest ranging from 40 to 50 percent, testing of the Clearwater formation continues to yield excellent results. A large pilot test is currently under consideration.

Further north in the AEC-operated Ipiatik East region where the Company has a 60 percent working interest, the Wabiskaw formation contains 6 billion barrels of oil in place. Pilot testing at Ipiatik, which began in 1984, continues to demonstrate progress where new technology combining horizontal fracturing and a steam additive has improved production several fold. Further optimization of this technology will be the emphasis of continued pilot operation in 1989.

SYNCRUDE

Located north of Fort McMurray, Alberta, Syncrude is the world's largest oil sands mining plant and meets approximately 12 percent of Canada's oil needs.

AEC has a 10 percent joint venture interest, with an average 7 percent overriding royalty on another 10 percent of revenue.

In 1988, Syncrude celebrated ten years of operation, having produced 380 million barrels of oil and completed a $1.4 billion, six-year capital investment program to improve reliability, reduce costs and increase production. A key component of the investment program was the $680 million Capacity Addition Project (CAP) which was completed ahead of schedule and under budget. CAP adds approximately 20,000 barrels per day to Syncrude's production capacity.

Syncrude achieved record production of 55 million barrels, an increase of 10 percent from 1987. For the third consecutive year, Syncrude's cash operating costs were under $15 a barrel. Production increases, combined with reduced operating costs, allowed Syncrude to contribute to AEC's cash flow and net earnings despite low oil prices.

AEC's share of proven developed synthetic oil reserves was increased by 97 million barrels, attributable to bringing CAP on stream. At 1988 production rates, Syncrude's proven reserves are sufficient to sustain 38 years of operation.

MARKETING

Record average natural gas sales of 280 million cubic feet per day were achieved while AEC continued to build on its diverse and flexible portfolio of long-term contracts. The 1988 integration of Chieftain's Canadian operations with AEC Oil and Gas Company has further diversified both supply capability and marketing arrangements.

AEC's long-term gas purchasers include TransCanada PipeLines Ltd., Pan-Alberta Gas Ltd. and Pan-Alberta Resources Inc. (AEC is one-half owner of the Pan-Alberta companies), Canadian Western Natural Gas Company Limited and ProGas Limited.

The residential heating market continues to be a high value sector, requiring long-term secure supplies and high peak production capability in winter months. AEC's natural gas sales strategy includes substantial emphasis on this sector of the North American gas market.

Deregulation of Canadian gas prices in late 1985 coincided with substantial price declines in world energy markets. However, two consecutive growth years in energy consumption and a lack of United States drilling activity have tightened the North American natural gas supply/demand balance. The endorsement of the Canada/U.S. Free Trade Agreement and strengthening North American gas markets are very favourable for AEC's future natural gas business.

The California gas market continues to be a high valued market with limited access for Canadian supply. AEC has reached preliminary agreement with a subsidiary of a major California distributor which will employ existing pipeline facilities to deliver 50 million cubic feet per day to the California distributor, to be phased in over three years beginning in late 1989. In an additional California sales initiative, AEC and two other Canadian producers are proposing the APEX (Alternative Pipeline Expansion) project to expand facilities for the delivery of Canadian gas.

In the U.S. Midwest, AEC is negotiating with three gas distribution companies for both long-term and interruptible sales arrangements and has obtained rights for transportation capacity.

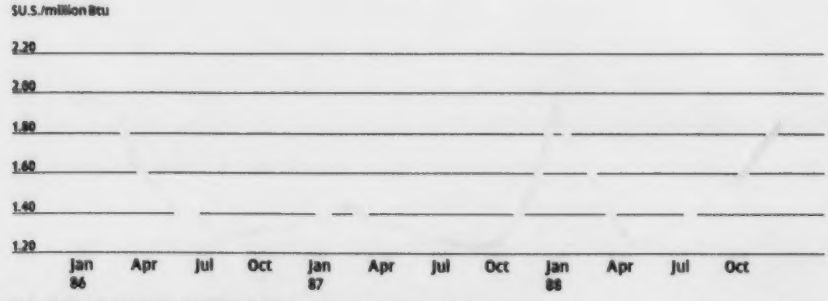
In the U.S. northeast, a regulatory settlement among competing pipeline proposals clears the way for final hearings on the associated Canadian pipeline expansion and initial deliveries of AEC's gas to northeastern U.S. markets in the 1990-91 timeframe.

Crude oil prices continued to be volatile and were reduced by both a stronger Canadian/U.S. dollar exchange rate and an international surplus of oil resulting from excessive world production levels.

AEC's crude oil marketing strategy is to make direct arrangements with a diverse group of secure, reliable refinery customers. This strategy was implemented in 1987 and operated successfully throughout 1988.

A new three-year agreement for sulphur sales enables AEC to participate in both North American and offshore markets through a large Canadian producer and marketer.

The natural gas storage project enables AEC to take advantage of higher seasonal natural gas demand and prices.



U.S. Natural Gas Spot Wellhead Price (Average of Southwest Regions)

CHIEFTAIN INTERNATIONAL, INC.

International oil and gas activities are conducted by Chieftain International, Inc. (CII), which became a wholly owned subsidiary of AEC in January 1989. Headquartered in Edmonton, principal areas of activity are the Gulf of Mexico and the Rocky Mountain regions of the United States.

Landholdings at year-end included 277,467 gross (81,426 net) acres in the United States and 101,311 gross (34,378 net) acres in the North Sea.

Oil sales were 1,633 barrels per day; natural gas sales averaged 1 million cubic feet per day. The company participated, with a 25 percent interest, in a major natural gas discovery on Matagorda Island Block 604 in U.S. waters offshore Texas in the Gulf of Mexico. Multiple gas sands were encountered below 7,000 feet in water depths of about 80 feet. Plans are underway to develop and produce this field by late 1989. Offshore Louisiana, CII has a 23 percent interest in a gas discovery being developed on West Cameron Blocks 187 and 188. A production platform on Block 187 is scheduled for completion in mid-1989.

At year-end 1988, independent consultants estimated that CII's proven natural gas reserves were 52 billion cubic feet in the United States, primarily in the Gulf of Mexico, with another 28 billion cubic feet in the North Sea. Oil and natural gas liquids reserves were 5.2 million barrels, located mainly in southeastern Utah.

Chieftain International is also involved in oilfield contract drilling through its wholly owned subsidiary, Armstrong Drilling, Inc., which is headquartered in Wooster, Ohio. Depth capacity for Armstrong's nine rigs ranges from 5,000 to 10,000 feet.

PAN-ALBERTA COMPANIES

Pan-Alberta Gas Ltd. and Pan-Alberta Resources Inc. are each one-half owned by AEC.

During 1988, Pan-Alberta Gas Ltd. retained its position as the second largest exporter of Canadian natural gas to the U.S. Record 1988 sales of 398 billion cubic feet resulted from Pan-Alberta's ability to access fully loaded pipeline capacity to serve U.S. markets. Pan-Alberta Gas received an extension of its export licence for California markets to the year 2012 and, for the fourth consecutive year, completed 100 percent contract sales to a California customer.

Pan-Alberta Resources Inc. has a 50 percent interest in a natural gas liquids extraction plant at Empress, Alberta, production from which is sold on a cost-of-service basis.

Pan-Alberta Resources' interest in the Empress extraction plant was project financed on a non-recourse basis in 1988 and advances by AEC were fully repaid. AEC expects continued earnings and dividends from this investment.

A E C P I P E L I N E S

L ▶ R:
Joanne S. Pasini-Taylor,
Operations Engineer

Brian J. Kedrosky,
Senior Project Engineer

Frank W. Proto,
President

Bernie J. Bradley,
Senior Vice-President

Ken L. Jenner,
Manager, Pipeline Operations

Ed A. Langlois,
Superintendent,
Pipeline Products Control

AEC Pipelines is Alberta's largest intraprovincial transporter of oil. During 1988, 322,000 barrels of oil per day were transported via its two owned and operated pipeline systems. New capital totalling $37 million was invested in these systems to meet the growing transportation requirements of the producers.

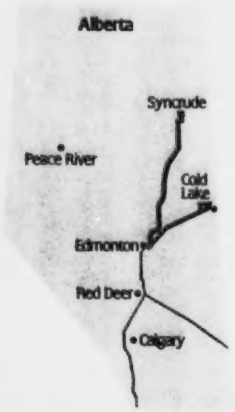
Being conscious of the impact of pipeline tolls on producers' margins, AEC Pipelines has implemented new technology, such as variable frequency pump drives, and operating efficiencies to ensure that capital and operating costs are as low as possible.

Pipeline activities were diversified through participation in the Iroquois Gas Transmission System project, a proposed natural gas pipeline that will deliver Alberta gas from the border at Iroquois, Ontario to the northeast United States. In addition, AEC Pipelines became, through Pacific Coast Energy Corporation, an active participant in the proposed natural gas pipeline to Vancouver Island. The Division also is actively involved in the development of alternative natural gas delivery systems to California.

For the second consecutive year, AEC Pipelines did not incur any lost time injuries. This fine achievement is evidence of the dedication and cooperation of the Division's employees.

■

A E C P I P E L I N E S



Pipeline Systems

— Alberta Oil Sands Pipeline
— Cold Lake Heavy Oil Pipeline
— Alberta Ethane Gathering System
Wabasca River Pipeline

ALBERTA OIL SANDS PIPELINE

Alberta Oil Sands Pipeline (AOSPL), a wholly owned and operated system, is a 270-mile pipeline delivering the oil production from the Syncrude plant to the Edmonton area where it is distributed to local refineries and other pipeline systems for export from Alberta.

During the year, an $18 million AOSPL system expansion was completed, increasing peak capacity to 226,000 barrels per day. As a result of the Syncrude and AOSPL expansions, a record volume of 149,000 barrels per day was transported during 1988.

COLD LAKE HEAVY OIL PIPELINE

Heavy oil blends from in situ heavy oil projects in the Cold Lake region are transported to Edmonton via the 150-mile, AEC owned and operated Cold Lake Heavy Oil Pipeline network. Blended heavy oil throughput increased to a record 135,000 barrels per day compared with 121,500 barrels per day in 1987.

An Energy Resources Conservation Board (ERCB) permit was received to expand peak system capacity to 215,000 barrels per day by constructing new tanks and a major pump station near La Corey. These facilities will become operational in early 1989. Also, an ERCB permit was received to construct a lateral system to service the planned heavy oil plants on the Primrose Range. Due to softening oil prices, this project will not be completed before 1990.

ALBERTA ETHANE GATHERING SYSTEM

The 550-mile Alberta Ethane Gathering System collects ethane from several natural gas processing plants within the province. One-third owned by AEC, the system delivers ethane to ethylene plants near Red Deer, to storage caverns near Fort Saskatchewan and to oil reservoirs where it is used in enhanced oil recovery.

WABASCA RIVER PIPELINE

The Wabasca River Pipeline is a 105-mile, conventional crude oil gathering pipeline system located in the northwest sector of Alberta. AEC Pipelines owns 19 percent of this system, which has a capacity of 14,000 barrels per day. Average daily throughput in 1988 was 8,400 barrels per day. Approval was received from the ERCB to extend the pipeline system to the South Trout and South Kidney areas in order to provide pipeline service to these developing oil producing areas.

VANCOUVER ISLAND PIPELINE

Acquisition of Chieftain Development positioned AEC to assume a major role in the development of a natural gas pipeline to Vancouver Island. AEC Pipelines plans to participate, through Pacific Coast Energy Corporation, in this $250 million transmission pipeline project that will supply natural gas to the Island and the south coast of mainland B.C. by 1990.

IROQUOIS GAS TRANSMISSION SYSTEM

A U.S. affiliate, Alenco Iroquois Pipelines Inc., holds a six percent interest in the proposed Iroquois Gas Transmission System project. This pipeline system will be the last leg in a new transportation network to supply Alberta natural gas to New York, New Jersey and Connecticut. The Iroquois pipeline will transport in excess of 500 million cubic feet per day. Conditional upon receipt of regulatory approvals, it is expected the system will become operational in 1991.

TRANSOIL TECHNOLOGY

The suitability of transporting heavy oil by using water to reduce its fluid viscosity was successfully demonstrated. Water was substituted for the diluent traditionally used for this purpose. Further tests of the "TRANSOIL" technology are planned for 1989 on a major pipeline system.

AEC FOREST PRODUCTS

L ▶ R:
Kenneth E. Pickrell,
Manager, Operations,
Blue Ridge Lumber (1981) Ltd.

Murray G. Summers,
Chief Forester,
Blue Ridge Lumber (1981) Ltd.

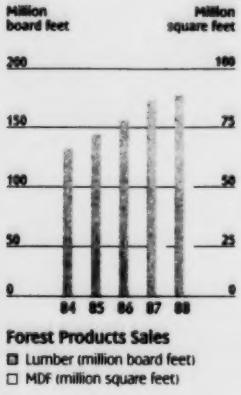
Martin R. McLeod,
Vice-President and General Manager,
Blue Ridge Lumber (1981) Ltd.

Richard E. Huff,
Manager, Economics
Alberta Energy Company Ltd.

Hector J. McFadyen,
President

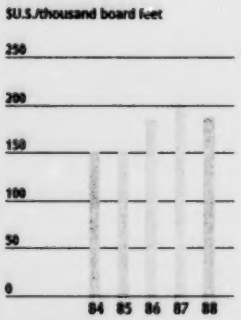
T. Richard Duquette,
General Project Manager,
CTMP

Brian J. McLeod,
MDF Marketing Manager,
Blue Ridge Lumber (1981) Ltd.



Forest Products Sales

- Lumber (million board feet)
- MDF (million square feet)



Market Prices—Lumber

Spruce, pine, fir—
2" x 4" standard and better

Blue Ridge Lumber was recognized as the "1987 Export Firm of the Year" for its increase in export sales of MDF.

Sales revenues for the Corporation's wholly owned subsidiary Blue Ridge Lumber (1981) Ltd. reached $56.5 million, the fourth successive year of significant growth. Lower financial results, however, were realized due to reduced revenues and higher operating costs in the lumber facility.

LUMBER

Market prices for lumber products weakened in 1988 as shown in the accompanying graph. Average mill net prices were 8 percent below those in 1987 due in part to the appreciation of the Canadian dollar relative to that of the U.S. Sales volumes increased 2 percent to 173 million board feet. While higher operating costs in 1988 were offset somewhat by improved prices for residual chips, the financial results for the lumber mill were less than desirable. Operating performance will improve in 1989 consistent with the Corporation's objective of being an efficient, low-cost producer.

Blue Ridge continued its extensive reforestation program as approximately 9,800 acres were either planted or seeded to establish regeneration on Blue Ridge Lumber cutover areas.

MEDIUM DENSITY FIBREBOARD

Markets for the Corporation's medium density fibreboard (MDF) production remained strong throughout much of the year although competition from new plants in Europe resulted in some market pressure late in 1988. Shipments increased by 15 percent to 55 million square feet. Average mill net prices were 4 percent greater than 1987 levels due to stronger market conditions and a higher proportion of premium grade MDF being produced. Financial results were better than those achieved in 1987.

AEC's diversified market strategy has been beneficial during the plant's first two years of operation and will continue; however, increasing shipments are expected to be directed to Canadian and southeast Asian markets as a result of changing market fundamentals and higher production levels. The product continues to enjoy strong market acceptance.

Blue Ridge Lumber was recognized by the Alberta government as the "1987 Export Firm of the Year" for its increase in export sales of MDF.

NEW INVESTMENTS

AEC is well advanced on plans to build an aspen-based bleached chemi-thermo-mechanical pulp (CTMP) mill having an annual capacity of 110,000 tonnes in the Slave Lake area of Alberta.

Production from the mill would be targeted to printing and writing grade markets in Europe, North America and southeast Asia. Extensive mill scale pulp and paper trials carried out in North America and Europe have resulted in a product of excellent quality, supporting the project's market objectives. The Corporation has entered into an agreement with MoDoCell, a major Swedish pulp producer, to provide technical expertise and certain marketing arrangements.

The Alberta government has agreed to provide a loan guarantee for the project covering 60 percent of the capital cost to a maximum of $96 million and certain infrastructure considerations.

The process design for the mill will meet water effluent standards which are more stringent than those which currently prevail for CTMP mills anywhere in the world. The mill will not have the severe environmental concerns generally associated with bleached kraft mills. Work currently is in progress to obtain the necessary environmental approvals.

RANGER

AEC PETROCHEMICALS

L ▶ R:
G. Wayne Doyle,
Manager, Personnel
Alberta Energy Company Ltd.

James A. Jeffery,
Coordinator,
Petrochemical Development

Robert A. Towler,
Director, Petrochemicals

Arun K. Dey,
Staff Facilities Specialist

Edward R. Alexander,
Senior Business Analyst

AEC's nitrogen fertilizers are marketed in Canada under the "Elephant Brand" trademark of Cominco Ltd.

The free trade agreement between Canada and the U.S. improves the prospects for establishing new petrochemical facilities in Alberta to serve the U.S. and Pacific Rim countries.

NITROGEN FERTILIZER

On July 1, 1988, AEC, through wholly owned Alenco Petrochemicals Inc., extended its nitrogen fertilizer business into the U.S. by acquiring a 25 percent partnership interest in Cominco American's nitrogen fertilizer business. AEC and Alenco now have a 25 percent share in the production and marketing of 1.4 million tonnes per year of nitrogen fertilizers, with a market area stretching from the Canadian prairies to Texas.

The capacities of the production facilities supplying these businesses are as follows:

		Tonnes/Year
Joffre, Alberta	(Ammonia)	350,000
Carseland, Alberta	(Ammonia)	400,000
	(Urea)	550,000
Calgary, Alberta	(Nitrates)	35,000
Borger, Texas	(Ammonia)	320,000
	(Urea)	75,000
Beatrice, Nebraska	(Nitrates)	160,000

The businesses also operate major ammonia storage and distribution facilities at Vanscoy, Saskatchewan; Leal, North Dakota; and Early, Iowa. As the agricultural market for nitrogen fertilizers is seasonal, the location of storage facilities close to these markets is important to provide immediate availability of product when and where it is required.

Production from the Canadian joint venture facilities is sold through 185 "Elephant Brand" outlets throughout western Canada. These outlets are owned and operated by independent entrepreneurs who are strategically located to serve the needs of prairie grain farmers. In addition, significant volumes are sold to industrial markets in Canada and exported to agricultural markets in the northern U.S. and offshore. The diversity of markets is a significant strength of the AEC/Cominco joint venture.

Production from the U.S. partnership is sold through a network of seven sales offices, primarily into agricultural markets throughout the grain growing states of the U.S. Midwest. Location of the Borger, Texas plant on a major ammonia pipeline system assures that product can be delivered to the U.S. corn belt on a very competitive basis.

All the plants operated at high rates of capacity in 1988. This factor, coupled with stable natural gas feedstock costs, resulted in lower production costs than were achieved in 1987.

Market prices for nitrogen fertilizers were below expectations in agricultural markets, partly as a result of the widespread drought which affected demand for fertilizers in much of the market area served by both the Canadian and U.S. businesses. The impact of the drought has led to a significant reduction in North American and worldwide grains inventories, and consequently grain prices have moved substantially higher. These factors are expected to result in a significant increase in seeded acreage in 1989. In addition, the weaker U.S. dollar, by tending to enhance nitrogen exports from the U.S. Gulf Coast and deter imports, has resulted in a strengthening of the U.S. nitrogen business.

A major retrofit program is scheduled to be carried out at the Borger, Texas ammonia plant in 1989. This program will ensure that the plant will be cost competitive and also will result in an increase in plant capacity.

Both 1987 and 1988 were weak years for prices in the fertilizer business, but a substantial improvement in demand and prices is expected in 1989.

OTHER INVESTMENTS

As part of its diversified resource development activities, AEC also participates in the electric utility, coal, oil and gas drilling, and vehicle leasing businesses.

AEC POWER

AEC holds a two-thirds interest in AEC Power Ltd., owner of the $320 million power plant which supplies electricity and steam for the Syncrude operation. Profits are earned on a contractually set cost-of-service basis.

COAL VALLEY

AEC owns 25 percent of the Coal Valley Mine, 130 miles west of Edmonton, which produces high quality, low sulphur coal for use in electric power plants in Canada and overseas. Higher electricity demand in Ontario and a tighter coal supply in international markets increased AEC's share of 1988 coal sales by nine percent to 544,000 tons.

TRI-CITY DRILLING (1968) LTD.

Based in Edmonton, Tri-City owns and operates 14 drilling rigs, primarily in Alberta. The wholly owned AEC subsidiary specializes in shallow to medium depth contract drilling for oil and natural gas. In 1988 Tri-City's rig utilization was 63 percent, compared with the industry-wide utilization rate of 40 percent.

HARTFIELD CHIEFTAIN LEASING LTD.

A wholly owned affiliate of AEC, Hartfield Chieftain Leasing owns and leases automobiles, trucks and other industrial and commercial equipment. The company has offices in Calgary and Edmonton and serves individual and corporate customers throughout western Canada. Hartfield's long-term lease fleet consists of 518 vehicles.

AEC'S COMMUNITY

L ▶ R:
Robert M. Wigelsworth,
Manager, Administration

Larry R. Ball,
Aviation Manager

Brian C. Ferguson,
Manager, Investor Relations

Edward J. Martin,
Vice-President, Administration

Richard H. Wilson,
Director, Public Affairs

Ronald D. Jones,
Director, Computer Services

David J. Angus,
Manager, Internal Audit

OUR EMPLOYEES

In addition to the people employed in various operating divisions, there are a number of support groups which supply a high level of service and professional assistance to the operating and corporate functions. The growth and progress of AEC is directly related to the efforts of the highly capable people employed throughout the organization.

Recognizing that employees are the most valued asset of an organization, AEC supports their further development and training through various programs such as educational leave of absence, night courses, daytime seminars, and in-house sessions. The Corporation also fosters a climate that encourages high individual standards, participation, delegation, and innovation. In support of a healthy working environment for its employees, during 1988 AEC created a smoke-free workplace in its Edmonton and Calgary offices.

At year-end, total staff count for AEC and its wholly owned subsidiaries was 993.

THEIR COMMUNITY

Employees donate considerable personal time to community roles such as coaching minor sports; leading Boy Scout or Girl Guide troops; serving on Boards of health and welfare agencies, academic institutions, and community associations, and helping the ill, disabled or needy. To complement and encourage such community support, AEC matches employees' monetary gifts to approved charitable groups, as well as allocating time to employees to volunteer at major events such as the XV Olympic Winter Games.

Corporate donations and sponsorships in support of health and welfare, education, athletic, community and arts and culture programs increased in 1988. AEC also expanded to eleven communities its program, conducted in partnership with community newspapers, to identify and recognize outstanding amateur coaches.

■

1988 FINANCIAL REVIEW

L ▶ R:
John D. Watson,
Vice-President Finance and
Chief Financial Officer

Keith O. Fowler,
Director, Tax and Treasury Operations

Derek S. Bwint,
Director, Financial Evaluations

Anita M. O'Brien,
Solicitor

David W. Richardson,
Assistant Treasurer

Ronald J. Stefure,
Assistant Manager,
Joint Venture
and Subsidiary Accounting

Financing transactions in 1988 included an $80 million public Common Share issue; the disposition of AEC's 10 percent interest in IPSCO shares for $25.7 million; the $151 million acquisition of the remaining interest in Chieftain Development Co. Ltd.; the negotiation of $300 million of unsecured credit facilities to replace secured ones, and the $225 million consolidation of other credit agreements. These transactions, completed on favourable terms, will enhance and facilitate corporate growth.

FINANCIAL RESULTS

1988 consolidated net earnings, before a $15.3 million extraordinary gain on the sale of IPSCO shares, were $36.1 million ($0.52 per Common Share). Earnings, after the extraordinary item, were $51.4 million ($0.79 per Common Share), down from $60.5 million in 1987. Financial performance reflects the significant downturn in world oil prices, partially offset by record production volumes of natural gas and both conventional and synthetic oil.

Cash flow was $196.2 million ($3.24 per Common Share), down 5.2 percent from 1987 cash flow of $207 million. This level of cash flow has supported the Corporation's capital expenditure program and, in combination with the above noted financing activities, has permitted AEC to maintain its sound financial position.

During the year, Common Share dividends of $17.6 million and Preferred Share dividends of $8.6 million were paid.

Revenues, net of royalties, increased 2.8 percent to $477.2 million. Oil and Gas revenues declined by $7.1 million as the significant drop in oil prices was not completely offset by higher production volumes. Pipeline revenues were up $0.9 million over the prior year due to an increased rate base, while Forest Products revenues also increased marginally with a strong medium density fibreboard market offsetting a weakened lumber market. Petrochemical revenues were near double with the completion of the first full year of operations of the nitrogen fertilizer joint venture. Coal revenues continued to grow and contributed positively to both earnings and cash flow.

Record production levels and a full year of fertilizer operations contributed to increased operating and depreciation, depletion and amortization costs. Increases in corporate general and administrative costs were minimized as a result of earlier programs introduced to contain costs while maintaining full employment levels.

CAPITAL EXPENDITURES

Additional investment of $163.5 million in property, plant and equipment was made in 1988, up $10.6 million from the previous year.

Major 1988 expenditures were $83.8 million for exploration and development of conventional oil and gas and heavy oil in Alberta and $39.1 million for expansion work on the AOSPL and Cold Lake pipeline systems.

AEC purchased the remaining 43 percent ownership interest in Chieftain at a net cost of $151 million, and the two corporations were amalgamated on January 1, 1989.

FINANCING ACTIVITY

The Corporation replaced its secured bank credit agreements with $300 million of unsecured bank credit facilities. In addition, two unsecured facilities with another bank were consolidated into one facility of $150 million on more favourable terms. Two existing trust company loan facilities totalling $75 million also were replaced with a single, more cost-efficient facility in the same amount. These credit facilities decreased costs and extended the repayment periods, thereby increasing financing flexibility. During the year, the Corporation negotiated with the Government of Alberta a $96 million project guarantee for the financing of the proposed bleached chemi-thermo-mechanical pulp mill to be located at Slave Lake, Alberta.

At year-end 1988, the average cost of the Corporation's long-term debt was slightly less than 9 percent while the prime lending rate was 12.25 percent. Having 68 percent of its long-term debt at fixed rates helped buffer AEC from short-term rate increases throughout the year. Only 3 percent, or $16.1 million, of its outstanding long-term debt must be repaid within the next five years and could be repaid with one month's cash flow. On average, the term to maturity of long-term debt exceeds ten years and the debt-to-equity ratio was 46:54 at year-end. The Corporation continues to manage its finances to maximize low cost flexibility while maintaining strong credit ratings.

The Corporation issued $80 million of Common Shares in April and another $20 million of Common Shares in conjunction with the Chieftain acquisition.

AUDITORS' REPORT

To the Shareholders of Alberta Energy Company Ltd.

We have examined the consolidated balance sheet of Alberta Energy Company Ltd. as at December 31, 1988 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants
Edmonton, Alberta
February 9, 1989

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended December 31 ($ millions except per share amounts)	Note Reference	1988	1987 (Restated–Note 3)
Revenues, Net of Royalties		**$477.2**	$464.0
Equity Earnings		**3.6**	.2
		480.8	464.2
Costs and Expenses			
Operating		**244.1**	201.9
Interest–net	4	**39.1**	35.3
General and administrative		**26.2**	23.1
Depreciation, depletion and amortization		**123.0**	102.9
		432.4	363.2
Earnings before the Undernoted		**48.4**	101.0
Income taxes	5	**10.6**	37.3
Minority interest		**1.7**	3.2
		12.3	40.5
Earnings before Extraordinary Item		**36.1**	60.5
Extraordinary Item	6	**15.3**	–
Net Earnings		**$ 51.4**	$ 60.5
Earnings per Common Share			
Before Extraordinary Item			
Basic		**$ .52**	$ 1.02
Fully Diluted		**$ .52**	$ .98
After Extraordinary Item			
Basic		**$ .79**	$ 1.02
Fully Diluted		**$ .79**	$ .98

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

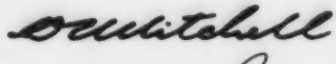
Year Ended December 31 ($ millions)	1988	1987
Balance–Beginning of Year	**$192.7**	$154.6
Net Earnings	**51.4**	60.5
	244.1	215.1
Dividends–Preferred Shares	**5.8**	6.4
–Common Shares	**17.6**	15.9
Premium on Redemption of Preferred Shares	**–**	.1
	23.4	22.4
Balance–End of Year	**$220.7**	$192.7

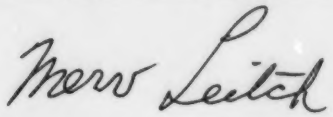
The notes to the consolidated financial statements are part of these statements.

CONSOLIDATED BALANCE SHEET

As at December 31 ($ millions)	Note Reference	1988	1987 (Restated–Note 3)
ASSETS			
Current Assets			
Cash and short-term investments at cost which approximates market		**$ 56.9**	$ 87.8
Accounts receivable and accrued revenue		**55.0**	66.5
Inventories		**25.7**	22.7
Prepaid expenses		**2.3**	2.4
Current portion of notes receivable		**6.0**	5.0
		145.9	184.4
Notes Receivable		**–**	6.0
Investments	8	**46.4**	71.8
Property, Plant and Equipment	9	**1,726.6**	1,584.5
Deferred Charges and Other Assets	10	**12.4**	12.1
		$1,931.3	$1,858.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 107.7**	$ 93.2
Dividends payable		**1.8**	1.8
Taxes payable		**4.4**	23.9
Deferred revenue and other		**25.9**	24.8
Current portion of long-term debt	11	**3.1**	9.9
		142.9	153.6
Deferred Revenue		**45.5**	55.2
Long-Term Debt	11	**597.8**	537.9
Other Liabilities		**30.8**	45.2
Deferred Income Taxes		**401.1**	379.8
Interests of Minority Shareholders		**–**	103.0
		1,218.1	1,274.7
Shareholders' Equity			
Share capital	12	**494.5**	391.4
Retained earnings		**220.7**	192.7
Foreign currency translation adjustment		**(2.0)**	–
		713.2	584.1
		$1,931.3	$1,858.8

Approved by the Board:


Director


Director

The notes to the consolidated financial statements are part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31 ($ millions)	Note Reference	1988	1987 (Restated–Note 3)
Operating Activities			
Cash flow	7	**$196.2**	$207.0
Net change in non-cash working capital		**6.7**	(.6)
Reduction of deferred revenue and other		**(8.9)**	(8.3)
		194.0	198.1
Investing Activities			
Acquisition of subsidiary's minority interest	2	**(230.5)**	–
Purchase of property, plant and equipment		**(163.5)**	(152.9)
Investment in affiliate and subsidiary		**(.8)**	(10.8)
Proceeds on disposal of assets		**7.9**	7.0
Proceeds on disposal of investment	6	**25.7**	–
Other		**(7.9)**	(.6)
		(369.1)	(157.3)
Dividends			
Preferred share dividends		**(5.8)**	(6.4)
Common share dividends		**(17.6)**	(15.9)
Preferred share dividends paid by a subsidiary to minority interests		**(2.8)**	(4.5)
		(26.2)	(26.8)
Net Increase (Decrease) to Cash before Financing Activities		**(201.3)**	14.0
Financing Activities			
Issue of long-term debt		**275.0**	373.3
Repayment of long-term debt		**(198.7)**	(377.1)
Issue of common shares, net		**102.4**	9.0
Payment of other liabilities		**(17.0)**	(15.6)
Redemption of preferred shares		**–**	(1.7)
Other		**8.7**	(.4)
		170.4	(12.5)
Increase (decrease) in cash and short-term investments		**$ (30.9)**	$ 1.5
Cash and short-term investments–end of year		**$ 56.9**	$ 87.8

The notes to the consolidated financial statements are part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1987 Amounts Restated–See Note 3)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Alberta Energy Company Ltd. (the "Corporation") and its subsidiaries other than Chieftain International, Inc., which has been accounted for using the equity method as described in Note 3.

A listing of subsidiaries, affiliates, and major unincorporated joint ventures is included on the inside back cover.

(b) Investments

Investments in companies over which the Corporation has significant influence are accounted for using the equity method. Other investments are accounted for using the cost method.

Investments in unincorporated joint ventures are accounted for using the proportionate consolidation method, whereby the Corporation's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

(c) Property, plant and equipment

Oil and gas

Conventional

The Corporation accounts for conventional oil and gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry.

Under this method all costs associated with the acquisition, exploration and development of oil and gas reserves are capitalized in cost centres on a country by country basis. Interest is not capitalized.

Depletion and depreciation is calculated using the unit-of-production method based on estimated proved reserves, before royalties. For purposes of the calculation, oil is converted to gas on an energy equivalent basis. All capitalized costs are subject to depletion and depreciation including costs related to unproved properties as well as estimated future costs to be incurred in developing proved reserves.

A ceiling test is applied to ensure that capitalized costs do not exceed estimated future net revenues less certain costs.

Oil sands

Property, plant and equipment associated with both surface mineable and in situ commercial oil sands projects are accumulated, at cost, in separate cost centres. Substantially all of these costs are amortized using the unit-of-production method based on estimated recoverable reserves applicable to each project. Project expenditures during the exploratory and pilot phases are depreciated using the straight-line method over terms up to five years.

Pipelines

Property, plant and equipment is carried at cost and is depreciated by the straight-line method based on the estimated service life of the assets.

Other

Property, plant and equipment is carried at cost and is depreciated over the useful life of the assets.

(d) Deferred charges and other assets

Project investigation costs

Project investigation costs for new business opportunities are charged to earnings as incurred until such time as the commercial viability of the project is established. Subsequent expenditures are capitalized and amortized on a basis appropriate for the project.

Financing costs

Financing costs relating to long-term debt are deferred and amortized over the life of the related debt.

(e) Foreign currency translation

Long-term debt payable in foreign currencies is translated at the rate of exchange prevailing at the end of the accounting period with any resulting adjustment being amortized on a straight-line basis over the remaining life of the debt.

The accounts of self-sustaining foreign companies are translated using the current rate method. Under this method, assets and liabilities are translated at year end exchange rates. Revenues and expenses are converted using average annual rates. Translation gains and losses relating to consolidated subsidiaries are deferred and included in shareholders' equity.

(f) Inventories

Inventories are valued at the lower of cost or estimated net realizable value.

(g) Interest capitalization

Interest is capitalized during the construction phase of large capital projects.

(h) Deferred revenue

Amounts received by the Corporation under take-or-pay provisions of gas sales contracts are recorded as deferred revenue. These amounts are recognized as revenue as the gas is delivered. The contracts provide for deliveries over a ten year period ending in 1994.

(i) Comparative figures

Certain 1987 figures have been reclassified and restated for comparative purposes.

2. ACQUISITION OF CHIEFTAIN DEVELOPMENT CO. LTD.

During the year, the Corporation completed the purchase of all the outstanding common shares and all other securities of Chieftain Development Co. Ltd. ("Chieftain"). This acquisition increased the Corporation's percentage ownership in Chieftain from 57% to 100% and has been accounted for by the purchase method. The accounts of Chieftain have been consolidated in the Corporation's financial statements since the Corporation acquired control in August, 1982. The Corporation and Chieftain were amalgamated effective January 1, 1989.

($ millions)		
Consideration given:		
Purchase of common shares and warrants		
–cash	$140.3	
–AEC Common Shares	11.2	$151.5
Redemption of preferred shares		
–cash	43.1	
–AEC Common Shares	9.4	52.5
Financing costs–cash		4.8
AEC 7.25% Convertible Debentures, Series 2		21.7
		$230.5
Allocated to:		
Property, plant and equipment		$ 98.5
Chieftain 7.25% Convertible Debentures		25.0
Minority interest		107.0
		$230.5

3. CHIEFTAIN INTERNATIONAL, INC.

The Corporation intends to dispose of 50% of its interest in Chieftain International, Inc. ("CII") and certain assets of Chieftain by a public share offering in 1989. Accordingly, the accounts of CII have not been consolidated in these financial statements at December 31, 1988 but have been accounted for using the equity method. Comparative amounts have been restated accordingly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(1987 Amounts Restated–See Note 3)

4. INTEREST–NET

($ millions)	1988	1987
Interest expense–on long-term debt	**$43.9**	$44.9
–other	**.4**	.3
Interest income	**(4.7)**	(7.6)
Capitalized interest	**(.5)**	(2.3)
	$39.1	$35.3

5. INCOME TAXES

($ millions)	1988	1987
Current	**$ (7.2)**	$21.9
Deferred	**20.8**	21.4
Alberta royalty tax credit	**(3.0)**	(6.0)
Income tax expense	**$10.6**	$37.3

The following table reconciles the recorded income tax expense and the expected income tax expense obtained by applying the basic tax rate to earnings before income taxes, equity earnings, minority interest and extraordinary item.

($ millions)	1988	1987
Earnings before income taxes, equity earnings, minority interest and extraordinary item	**$44.8**	$100.8
Expected income tax expense (Statutory Rate: 1988–47.4%; 1987–50.6%)	**$21.2**	$51.0
Effect on taxes resulting from:		
Non-deductibility of–		
Crown royalties and leases	**9.1**	9.9
Income debenture interest–net	**.6**	5.5
Depreciation and depletion	**1.5**	3.0
Federal allowances–		
Resource allowance	**(15.6)**	(20.3)
Earned depletion	**(2.6)**	(4.7)
Provincial income tax rebates	**(3.0)**	(6.0)
Other–net	**(.6)**	(1.1)
Income tax expense (Effective Rate: 1988–23.7%; 1987–37.0%)	**$10.6**	$37.3

6. EXTRAORDINARY ITEM

The investment in IPSCO Inc. was sold during the year for $25.7 million resulting in an extraordinary gain of $15.3 million.

7. CASH FLOW

($ millions)	1988	1987
Earnings before extraordinary item	$ 36.1	$ 60.5
Depreciation, depletion and amortization	123.0	102.9
Deferred income taxes	20.8	21.4
Dividends from affiliates, net of equity earnings	12.5	14.1
Minority interest	1.7	3.2
Other	2.1	4.9
	$196.2	$207.0

8. INVESTMENTS

($ millions)	Percent Interest	1988	1987
Accounted for on the equity basis:			
AEC Power Ltd. (50% voting)	66⅔	$29.5	$29.3
Pan-Alberta Gas Ltd. (40% voting)	50	7.4	5.9
Pan-Alberta Resources Inc. (40% voting)	50	1.0	25.8
U.S. fertilizer partnership	25	8.1	–
		46.0	61.0
Accounted for on the cost basis:			
IPSCO Inc.		–	10.4
Other (market value–$.4)		.4	.4
		.4	10.8
		$46.4	$71.8

9. PROPERTY, PLANT AND EQUIPMENT

	1988			1987
($ millions)	Cost	Accumulated depreciation, depletion and amortization	Net	Net
Oil and gas	$1,748.8	$487.8	$1,261.0	$1,141.8
Pipelines	348.5	79.5	269.0	243.3
Forest products	85.2	32.1	53.1	51.9
Other	216.4	72.9	143.5	147.5
	$2,398.9	$672.3	$1,726.6	$1,584.5

10. DEFERRED CHARGES AND OTHER ASSETS

($ millions)	1988	1987
Unamortized financing costs	$ 8.7	$ 9.5
Other	3.7	2.6
	$12.4	$12.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(1987 Amounts Restated–See Note 3)

11. LONG-TERM DEBT

($ millions)	1988	1987
Fixed rate debt:		
Unsecured debentures		
10.50%, due June 1996	**$100.0**	$100.0
6.75% convertible subordinated, due June 2002	**125.0**	125.0
7.25% convertible subordinated, due September 2003	**125.0**	125.0
7.25% convertible subordinated, Series 2 due September 2003	**25.0**	–
7.25% convertible subordinated, issued by subsidiary	**–**	25.0
First Mortgage Sinking Fund Bonds		
Series A, 9⅝%, due June 1997	**15.0**	16.4
Series B, 9¾%, due June 1997	**17.3**	18.7
Mortgage, 11.75%, due September 2000	**5.2**	5.3
Other	**2.1**	–
	414.6	415.4
Floating rate debt:		
Revolving credit and term loan borrowings		
Notes payable	**189.6**	121.8
Income debentures	**–**	7.1
Other	**–**	3.5
	189.6	132.4
	604.2	547.8
Current portion of long-term debt	**3.1**	9.9
Unamortized portion of debt discount	**3.3**	–
	6.4	9.9
	$597.8	$537.9

(a) Mandatory five year debt repayments

The minimum annual repayments of long-term debt required over each of the next five years are as follows ($ millions):

1989	$3.1
1990	3.3
1991	3.3
1992	3.4
1993	3.0

(b) Convertible debentures–6.75%

Each debenture is convertible at the option of the holder into Common Shares at any time until June 29, 1997 or the date fixed for redemption, whichever is earlier, at a conversion price of $23.375 per Common Share.

Subject to certain conditions and subsequent to June 30, 1989, the debentures are redeemable at the option of the Corporation, at prices varying from 105.25% to 100.00% of the principal amount.

(c) Convertible debentures–7.25%

Each debenture is convertible at the option of the holder into Common Shares at any time until September 29, 1997 or the date fixed for redemption, whichever is earlier, at a conversion price of $25.50 per Common Share.

Subject to certain conditions and subsequent to September 30, 1989, the debentures are redeemable at the option of the Corporation, at prices varying from 105.6% to 100.0% of the principal amount.

(d) Convertible debentures–7.25%, Series 2

During the year, the Corporation issued series 2 debentures as part of the Chieftain acquisition (see note 2) in exchange for the Chieftain 7.25% convertible subordinated debentures then outstanding. The terms of the series 2 debentures are identical to those described in (c) above. This exchange was recorded at market value and resulted in a debt discount of $3.3 million, which is being amortized on a straight-line basis over the remaining term of the debt.

(e) First Mortgage Sinking Fund Bonds

Alberta Oil Sands Pipeline Ltd. ("AOSPL"), a wholly owned subsidiary of the Corporation, is obligated to retire $2.8 million of these bonds annually. The bonds are secured by both a fixed and floating charge on AOSPL's assets that relate to the Syncrude project. The participants in the Syncrude project, of which the Corporation is a participant to the extent of 10%, are committed to provide funds for the repayment of these bonds.

(f) Revolving credit and term loan borrowings

The Corporation has $450 million of revolving credit and term loan facilities available with three major Canadian chartered banks. One agreement is fully revolving until converted to a 5 year revolving reducing facility at the option of the lender and upon 24 months' notice to the Corporation. The other two agreements are fully revolving until 1990 and 1992, respectively, with provisions for yearly extensions at the option of the lenders following 19 months' notice from the Corporation. If not extended the two agreements convert to revolving reducing facilities over seven and four years, respectively.

All three facilities are unsecured and are available in Canadian and/or U.S. dollar equivalent amounts and currently bear interest at the lenders' Canadian prime commercial lending rates, U.S. base rates or LIBOR plus ⅜%.

The Corporation also has a $75 million unsecured revolving credit and term loan facility with a trust company. Amounts advanced under this facility bear interest at the lender's prime commercial lending rates minus a factor up to ¼% over the revolving term of the loan or at Bankers' Acceptance rates plus ⅜%.

Notes payable consist of Commercial Paper and Bankers' Acceptances all maturing at various dates up to January 31, 1989, with a weighted average interest rate of 10.82% (1987–9.04%). Notes payable are shown as long-term debt because they represent amounts which are not expected to require the use of working capital during the year and they are supported by the availability of term loans under the revolving credit facilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(1987 Amounts Restated–See Note 3)

12. SHARE CAPITAL

($ millions)	1988	1987
First Preferred Shares:		
Authorized–20,000,000 shares		
Issued–None	$ –	$ –
Second Preferred Shares:		
Authorized–20,000,000 shares		
Issued–2,999,700 7.75% Deferred Convertible Redeemable, Series 2 with a paid up amount of $25 each	**75.0**	75.0
Third Preferred Shares:		
Authorized–20,000,000 shares		
Issued–None	–	–
Common Shares:		
Authorized–300,000,000 shares		
Issued–59,773,585 shares, net of 855,098 shares held by a subsidiary (1987–53,814,652)	**419.5**	316.4
Non-Voting Shares:		
Authorized–5,000,000 shares		
Issued–None	–	–
	$494.5	$391.4

(a) Second Preferred Shares–Series 2

Series 2 Preferred Shares are cumulative and, subject to certain conditions, are redeemable at the option of the Corporation at predetermined prices varying from $26.50 to $25.00.

The holders of Series 2 Preferred Shares have the option, until May 16, 1995, to convert each Series 2 Preferred Share into 1.28 Common Shares.

(b) Common Shares

	1988		1987	
	Number of Shares	**Amount**	Number of Shares	Amount
Issued–Beginning of year	**53,814,652**	**$316.4**	52,757,339	$298.7
Issued for cash–April, 1988	**4,539,008**	**80.0**	–	–
Relating to purchase of Chieftain	**1,146,110**	**20.6**	–	–
Issued to subsidiary on conversion of debentures	**855,098**	**18.3**	–	–
Less: Shares held by subsidiary	**(855,098)**	**(18.3)**	–	–
Conversion of Second Preferred Shares, Series 1	–	–	719,385	13.0
Conversion of Second Preferred Shares, Series 2	–	–	384	–
Issued for cash under Shareholder Investment Plan	**214,625**	**3.5**	134,734	2.5
Issued for cash under Employee Share Option Plan	**59,190**	**.6**	202,810	2.2
Common share issue costs	–	**(1.6)**	–	–
Issued–End of year	**59,773,585**	**$419.5**	53,814,652	$316.4

(c) Employee Share Option Plan

The Employee Share Option Plan provides for granting to employees of the Corporation and its subsidiaries options to purchase Common Shares of the Corporation. Each option which has been granted under the plan expires after seven years and may be exercised in cumulative annual amounts of 25% on or after each of the first four anniversary dates of the grant.

As at December 31, 1988, options, exercisable between 1989 and 1995, were outstanding to purchase 774,080 Common Shares at minimum prices ranging from $9.79 to $16.65 per share.

(d) Common Shares reserved

At December 31, 1988, Common Shares were reserved for issuance as follows:

Conversion of Second Preferred Shares	3,839,616
Conversion of Subordinated Debentures	11,229,946
Shareholder Investment Plan	54,030
Employee Share Option Plan	959,580
Share Purchase Plan (presently inactive)	100,108
	16,183,280

(e) Alberta Energy Company Act

Pursuant to the Alberta Energy Company Act only citizens or residents of Canada are eligible to purchase, own or hold voting shares in the Corporation. In addition, the maximum ownership of any one shareholder, excluding the Government of Alberta, is limited to 1% of the total number of issued and outstanding voting shares of each class of the Corporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(1987 Amounts Restated–See Note 3)

13. SUPPLEMENTARY INFORMATION

(a) Joint ventures

The Corporation has included in its accounts the following aggregate amounts in respect of those unincorporated joint ventures outlined on the inside back cover.

($ millions)	**1988**	1987
Assets	**$444.1**	$443.6
Liabilities	**44.3**	43.7
Revenues, net of royalties	**158.8**	161.9
Expenses	**144.1**	117.9

(b) Capitalized general and administrative expenses

General and administrative expenses capitalized to oil and gas properties during the year amounted to $9.4 million (1987–$7.0 million).

(c) Ceiling test prices

The prices used in the ceiling test evaluation of the Corporation's reserves at December 31, 1988 were as follows:

Natural gas	$1.54 per thousand cubic feet
Oil and natural gas liquids	$13.91 per barrel

(d) Pension plans

At December 31, 1988, the market value of pension fund assets was $18.4 million (1987–$14.7 million) and the accrued pension liability, as estimated by the Corporation's actuaries, was $16.6 million (1987–$16.3 million).

(e) Related party transactions

During the year, the Corporation sold approximately $42.8 million (1987–$27.2 million) of natural gas to affiliates of which $2.7 million (1987–$3.7 million) is included in accounts receivable at year end.

(f) Contingent liability

The Corporation has provided a Cdn. $100.0 million and a U.S. $12.5 million guarantee for the bank indebtedness of CII. The guarantee will be terminated when the proceeds from the share offering are applied against the bank loans of CII.

(g) Segmented information

($ millions)	Oil and Gas		Pipelines		Forest Products		Other		Total	
	1988	1987	**1988**	1987	**1988**	1987	**1988**	1987	**1988**	1987
Gross revenue	**$ 294.9**	$ 305.7	**$ 76.6**	$ 75.7	**$56.5**	$54.4	**$ 68.1**	$ 51.2	**$ 496.1**	$ 487.0
Royalties	**17.8**	21.5	**–**	–	**–**	–	**1.1**	1.5	**18.9**	23.0
Revenues, net of royalties	**277.1**	284.2	**76.6**	75.7	**56.5**	54.4	**67.0**	49.7	**477.2**	464.0
Operating expenses	**126.9**	102.9	**15.2**	16.3	**51.1**	43.9	**50.9**	38.8	**244.1**	201.9
Depreciation, depletion and amortization	**87.1**	70.8	**13.3**	12.5	**6.0**	5.0	**13.4**	11.6	**119.8**	99.9
	214.0	173.7	**28.5**	28.8	**57.1**	48.9	**64.3**	50.4	**363.9**	301.8
Segmented operating income	**$ 63.1**	$ 110.5	**$ 48.1**	$ 46.9	**$ (.6)**	$ 5.5	**$ 2.7**	$ (.7)	**113.3**	162.2
Equity earnings									**3.6**	.2
Corporate expenses									**(29.4)**	(26.1)
Interest–net									**(39.1)**	(35.3)
Income taxes									**(10.6)**	(37.3)
Minority interest									**(1.7)**	(3.2)
Earnings before extraordinary item									**$ 36.1**	$ 60.5
Identifiable assets	**$1,309.5**	$1,200.6	**$276.7**	$251.9	**$70.0**	$64.9	**$150.6**	$151.3	**$1,806.8**	$1,668.7
Corporate assets									**78.1**	118.3
Investments									**46.4**	71.8
Total assets									**$1,931.3**	$1,858.8
Capital expenditures	**$ 104.5**	$ 93.0	**$ 39.1**	$ 19.4	**$ 7.8**	$ 7.3	**$ 7.5**	$ 31.7	**$ 158.9**	$ 151.4

HISTORICAL REVIEW

(Unaudited)

AT YEAR-END 1988

Net petroleum and natural gas rights
3.3 million acres

Natural gas reserves (billion cubic feet)

Proven	Probable	Total
1,539	201	1,740

†Proven natural gas reserve life
15 years

Oil and natural gas liquids reserves (million barrels)

Proven	Probable	Total
15.5	5.2	20.7

†Proven oil and natural gas liquids reserve life
6 years

Proven synthetic oil reserves
212 million barrels

†Synthetic oil reserve life
38 years

Net Primrose heavy oil in place
25 billion barrels

Timber lands
1.3 million acres

Coal reserves
5.9 million clean tons

†Coal reserve life
11 years

Pipelines (in five pipelines)
1,400 miles

† At 1988 production rates

(all dollar amounts, except per share amounts, are in millions)	1988
Financial	
¹Revenue (net of royalties)	$ 477.2
Earnings before extraordinary items	36.1
Net earnings (loss) after extraordinary items	51.4
¹Cash flow	196.2
Petroleum and Gas Revenue Tax	–
¹Oil and gas royalties paid	17.8
¹Working capital	3.0
¹Investment in property, plant and equipment	1,726.6
¹Long-term debt	597.8
¹Total assets	1,931.3
Per Share Data*	
Basic earnings before extraordinary items	$ 0.52
Basic net earnings (loss) after extraordinary items	0.79
¹Cash flow	3.24
Common shareholders' equity	10.68
Common dividend	0.30
Shares*	
Registered shareholders**	45,339
Common Shares outstanding	59,773,585
Volume of Common Shares traded	12,014,918
Common Share price range	
–High	$19.50
–Low	13.63
–Close	15.75
Operating Data	
Gas sales***	
–billion cubic feet	102.3
Synthetic oil sales (net)	
–million barrels	5.5
Conventional oil sales***	
–million barrels	2.4
Coal sales (net)	
–thousand tons	544
Lumber sales	
–million board feet	173
Medium density fibreboard sales	
–million square feet	55
Nitrogen fertilizer sales	
–thousand tonnes	292
Pipeline throughput (all systems)	
–million barrels	173.0

¹ *Comparative figures for the years 1982 - 1987 have been restated to reflect the use of the equity method of accounting for Chieftain International, Inc. (see Note 3 to the Consolidated Financial Statements).*

* *Reflects three-for-one stock split*
** *Includes preferred shareholders from 1982 - 1988*
*** *Restated to reflect Canadian sales only*

HISTORICAL REVIEW

1987	1986	1985	1984	1983	1982	1981	1980	1979
$ 464.0	$ 443.3	$ 525.3	$ 463.4	$ 445.0	$ 355.4	$ 285.1	$ 232.6	$ 90.9
60.5	47.8	80.5	72.3	62.4	33.6	42.4	57.4	27.4
60.5	(35.5)	80.5	72.3	62.4	54.6	29.7	57.4	27.4
207.0	201.5	252.6	221.5	207.1	125.6	90.6	115.6	60.8
–	11.5	33.2	32.5	29.5	29.5	15.6	–	–
21.4	28.0	52.7	44.4	65.5	61.5	55.1	43.1	18.3
30.8	36.6	29.5	48.4	79.3	74.6	1.5	10.1	44.3
1,584.5	1,546.2	1,428.8	1,237.5	1,087.3	1,057.3	694.0	593.0	531.9
537.9	534.5	606.8	517.4	497.3	554.4	518.1	251.8	309.6
1,858.8	1,806.3	1,860.3	1,673.1	1,536.5	1,477.5	1,036.9	702.7	651.0
$ 1.02	$ 0.72	$ 1.44	$ 1.22	$ 1.03	$ 0.57	$ 0.93	$ 1.26	$ 0.60
1.02	(1.12)	1.44	1.22	1.03	1.03	0.65	1.26	0.60
3.68	4.01	5.06	4.06	3.78	2.55	1.99	2.54	1.34
9.48	8.62	9.62	9.84	8.83	8.05	6.37	5.90	4.80
0.30	0.30	0.30	0.25	0.20	0.20	0.20	0.15	0.10
46,528	51,125	52,974	52,460	55,939	58,816	52,841	54,252	51,725
53,814,652	52,757,339	44,876,570	50,933,122	50,813,255	50,800,755	45,491,255	45,460,505	45,446,505
21,188,500	15,327,109	8,542,225	7,787,853	9,313,891	6,330,743	4,788,371	9,706,332	8,530,752
$ 25.25	$ 17.38	$ 22.13	$ 23.25	$ 21.25	$ 20.25	$ 27.75	$ 24.38	$ 14.42
14.38	9.75	16.13	17.63	13.63	8.00	14.00	12.50	6.21
15.88	14.88	17.38	19.88	18.25	15.00	16.00	23.88	13.50
85.0	92.0	85.4	81.6	80.3	71.5	58.5	46.5	38.3
5.0	4.7	4.7	3.2	4.1	3.1	3.0	3.0	0.7
1.8	1.7	0.7	0.6	0.3	0.1	0.1	0.1	0.1
501	448	432	608	565	717	782	622	538
169	152	140	130	121	90	113	115	100
47	8	–	–	–	–	–	–	–
135	–	–	–	–	–	–	–	–
160.0	118.8	97.8	74.7	77.0	62.4	59.1	57.3	39.6

DIRECTORS AND OFFICERS

Board of Directors

MATHEW M. BALDWIN
Company Director
Edmonton, Alberta

C. MERV LEITCH, Q.C.
Partner
Macleod Dixon
Barristers & Solicitors
Calgary, Alberta

PETER L.P. MACDONNELL, C.M., Q.C.
Partner, Milner & Steer
Barristers & Solicitors
Edmonton, Alberta

JOHN E. MAYBIN
President
Colmac Energy Inc.
Calgary, Alberta

STANLEY A. MILNER
President
Chieftain International, Inc.
Edmonton, Alberta

DAVID E. MITCHELL, O.C.
President
Alberta Energy Company Ltd.
Calgary, Alberta

RAYMOND J. NELSON
President
Nelson Lumber Company Ltd.
Lloydminster, Alberta

GORDON H. SISSONS
Chairman of the Board
I-XL Industries Ltd.
Medicine Hat, Alberta

J. HARRY TIMS
President & General Manager
McTavish McKay & Company Limited
Calgary, Alberta

Corporate Officers and Senior Personnel

DAVID E. MITCHELL, O.C.
President & Chief Executive Officer

GWYN MORGAN
Senior Vice-President

FRANK W. PROTO
Senior Vice-President

ROGER D. DUNN
Vice-President

EDWARD J. MARTIN
Vice-President, Administration

HECTOR J. McFADYEN
Vice-President

JOHN D. WATSON
Vice-President, Finance
and Chief Financial Officer

BARRY D. GILCHRIST
Corporate Secretary

SYDNEY R. CHEN-SEE
Assistant Corporate Secretary

DAVID W. RICHARDSON
Assistant Treasurer

DEREK S. BWINT
Director,
Financial Evaluations

KEITH O. FOWLER
Director,
Tax & Treasury Operations

LAWRENCE J. HICKEY
Comptroller

WAYNE G. HOLT
General Counsel

RONALD D. JONES
Director,
Computer Services

ROBERT A. TOWLER
Director,
Petrochemicals

RICHARD H. WILSON
Director,
Public Affairs

Principal Officers of Divisions

AEC Oil and Gas Company

GWYN MORGAN
President

ROGER D. DUNN
Senior Vice-President

RONALD A. McINTOSH
Senior Vice-President

DENNIS W. CORNELSON
Vice-President,
Marketing

ALLAN F. KIERNAN
Vice-President

R. WILLIAM OLIVER
Vice-President

WAYNE G. THOMSON
Vice-President,
Production

AEC Pipelines

FRANK W. PROTO
President

BERNIE J. BRADLEY
Senior Vice-President

WALLACE W. SCOTT
Vice-President, Engineering

JOHN D. WATSON
Vice-President, Finance

CORPORATE INFORMATION

Offices

#1200, 10707 - 100 Avenue
Edmonton, Alberta T5J 3M1
(Registered Office)

#2400, 639 - 5 Avenue S. W.
Calgary, Alberta T2P 0M9
(Executive Office)

Transfer Agent and Registrar (Common Shares)

National Trust Company
Calgary, Edmonton, Vancouver, Regina, Winnipeg, Toronto, Montreal, Halifax

Transfer Agent and Registrar (Second Preferred Shares, Series 2)

The Royal Trust Company
Calgary, Edmonton, Vancouver, Regina, Winnipeg, Toronto, Montreal, Halifax

Trustee (Convertible Debentures and 10.50% Debentures)

The Royal Trust Company
Calgary, Edmonton, Vancouver, Regina, Winnipeg, Toronto, Montreal, Halifax

Auditors

Price Waterhouse
Chartered Accountants
Edmonton, Alberta

Stock Exchange Listings

The Alberta Stock Exchange
The Montreal Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange

In newspaper listings, AEC's share issues are shown as follows:

Alt Energy	Common
Al Enr 775	Second Preferred, Series 2

Major Subsidiaries and Affiliates

AEC Power Ltd. (50% voting)	66⅔%
Alberta Oil Sands Pipeline Ltd.	100%
Alenco Inc.	100%
Alenco Iroquois Pipelines Inc.	100%
Alenco Petrochemicals Inc.	100%
Alenco Pipelines Inc.	100%
Alenco Resources Inc.	100%
Armstrong Drilling, Inc.	100%
Blue Ridge Lumber (1981) Ltd.	100%
*Chieftain Development Co. Ltd.	100%
Chieftain Energy Resources Ltd.	100%
Chieftain Exploration (U.K.) Limited	100%
Chieftain International, Inc.	100%
Engineering Specialties Ltd.	100%
Hartfield Chieftain Leasing Ltd.	100%
Pacific Coast Energy Corporation	100%
Pan-Alberta Gas Ltd. (40% voting)	49.995%
Pan-Alberta Resources Inc. (40% voting)	49.995%
Ranger Forest Products Ltd.	100%
Tri-City Drilling (1968) Ltd.	100%

*Amalgamated with Alberta Energy Company Ltd. on January 1, 1989.

Major Joint Ventures

Coal Valley	25%
Ethane Gathering System	33⅓%
Nitrogen Fertilizer	25%
Syncrude	10%

Duplicate Annual Reports

Receipt of duplicate shareholder material results from shareholders having shares of the same class or series registered in different names or addresses. You can avoid receiving duplicate shareholder reports and help the Corporation save money by contacting your Transfer Agent (see Transfer Agent and Registrar) to have your holdings registered under one name and address.

Annual Meeting

The Annual Meeting of Shareholders of Alberta Energy Company Ltd. will be held in the Alberta Room, The Westin Hotel, 10135 - 100 Avenue, Edmonton, Alberta at 3:00 p.m. local time on Wednesday, April 12, 1989.

Annual Reports

Copies of the Corporation's 1988 annual report may be obtained by contacting the Corporate Secretary at Alberta Energy Company Ltd., #2400, 639 - 5 Avenue S.W., Calgary, Alberta T2P 0M9.

SHAREHOLDER INVESTMENT PLAN

Eligible registered shareholders wishing to increase their holdings of Common Shares of Alberta Energy Company Ltd. may take advantage of the Shareholder Investment Plan which offers two options:

Dividend Reinvestment Plan

(DRP) provides a convenient method for shareholders to reinvest their cash dividends in new Common Shares of AEC at 95 percent of Average Market Price.

Optional Share Purchase Plan

(OSP) allows a shareholder to purchase new Common Shares at Average Market Price up to an aggregate of $5,000 per calendar quarter (minimum $50 per remittance).

No commission, service charges or brokerage fees are payable by shareholders to acquire Common Shares via DRP or OSP, as all administrative costs are borne by AEC.

Eligible registered shareholders are registered holders of Common Shares or 7.75% Deferred Convertible Redeemable Second Preferred Shares, Series 2, who are resident in Canada or Canadian citizens resident in any country except the United States.

Detailed information and copies of the Shareholder Investment Plan can be obtained from:

National Trust Company
Corporate Trust Services
Suite 1008, 324 - 8 Avenue S.W.
Calgary, Alberta T2P 3B2
Telephone (403) 263-1460